

VZCZCXRO9215  
PP RUEHDBU  
DE RUEHDBU #0117/01 0271219  
ZNY CCCCC ZZH  
P 271219Z JAN 10  
FM AMEMBASSY DUSHANBE  
TO RUEHC/SECSTATE WASHDC PRIORITY 1184  
INFO RUCNCIS/CIS COLLECTIVE  
RUEHBUL/AMEMBASSY KABUL PRIORITY 0414  
RUEATRS/DEPT OF TREASURY WASHINGTON DC  
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC  
RUEAIIA/CIA WASHDC  
RUEHDBU/AMEMBASSY DUSHANBE 2584

C O N F I D E N T I A L SECTION 01 OF 03 DUSHANBE 000117

SIPDIS

TREASURY PLEASE PASS JEFF BAKER

E.O. 12958: DECL: 1/27/2020  
TAGS: [ECON](#) [KCOR](#) [EFIN](#) [PGOV](#) [PHUM](#) [TI](#)  
SUBJECT: A CASE-STUDY IN ROGHUN EXTORTION

REF: A. 09 DUSHANBE 1443  
[1](#)B. DUSHANBE 52  
[1](#)C. DUSHANBE 67

CLASSIFIED BY: Kenneth Gross, Ambassador, Exec, DOS.  
REASON: 1.4 (b), (d)

[1](#)1. (C) Summary: The experience of the U.S. micro-finance institution FINCA offers a case study in the subtle and not-so-subtle efforts by the Tajik government to extort funding for the Roghun hydroelectric dam. Employees at all but one of FINCA's 34 offices in Tajikistan have been told to contribute to Roghun. In some cases it has come as a request; in others, a demand. Most FINCA offices have succeeded in negotiating with local officials over the amount of required purchases, but authorities shut down two FINCA offices when employees did not meet a demand to contribute amounts equivalent to their annual salaries. FINCA has adopted a policy of defraying up to half its employees' Roghun purchases. It is also providing loans to some clients to buy Roghun shares. FINCA's director in Dushanbe says the government's Roghun policy is seriously threatening Tajikistan's financial and investment climate. He has asked for Embassy help in staving off the more blatant extortion attempts the firm is facing. End summary.

GOVERNMENT SHUTS DOWN OFFICES THAT CAN'T PAY FOR ROGHUN

[1](#)2. (C) The government of Tajikistan has not abated its fever-pitch effort to wring Roghun contributions out of as many people and businesses as possible. Although President Rahmon said foreign-owned firms would not be allowed to purchase shares in Roghun, in practice foreign firms and their employees have been subject to the same kinds of intimidation and extortion as domestic entities (refs A and B). The experience of the microfinance institution FINCA offers a case in point. FINCA-Tajikistan is registered as a local limited liability company, but it is wholly owned by the U.S. non-profit organization FINCA International. Though FINCA has not been forced as an organization to buy shares in Roghun, employees at all but one of its 34 offices countrywide have been approached by local government officials to buy shares. In some instances the subject has been raised as a polite request, but in several cases local officials have openly demanded that employees buy shares or their office will be shut down.

[1](#)3. (C) Two FINCA offices were closed by local authorities when staff failed to buy the number of shares demanded. Officials sealed FINCA's office in the southeast town of Kubodiyon on January 16 when staff were unable to pay the several thousand

somoni per person demanded. After intense negotiations authorities agreed to allow the office to reopen two days later after paying a total of 1,500 somoni (\$342) for the whole office. FINCA's office in the town of Vose "voluntarily" closed at the request of local authorities when its staff of four could not raise the 25,000 somoni (\$5,700) the officials demanded. The staff explained that this amount was equivalent to the entire office's annual salaries put together. (The office manager makes 12,000 somoni per year, while the cashier, loan officer, and database manager make between 5,000 and 6,000.) After very difficult negotiations with FINCA's district manager, the authorities agreed to let the office reopen with a 6,000 somoni down payment, with another 14,000 to be paid by year's end. They subsequently raised the demanded down payment to 11,000. The office technically remains closed, although they are serving some clients through an alternate entrance.

¶4. (C) Other FINCA offices have endured arduous negotiations with local authorities. On January 13, a delegation from the district governor's office paid a visit to the FINCA office in Rudaki, just south of Dushanbe, to request that its seven employees, "as good citizens," contribute a total of 25,000 somoni (an average of \$815 per employee) to Roghun. They said the office head, as a bank branch manager, should contribute 5,000 somoni. After a lengthy explanation of FINCA's social mission and its relatively poor target population, officials agree to accept 2,500 somoni from the office as a whole. The officials reminded the manager, however, that "it would be very easy for us to call the fire marshall in for a quick inspection of your office." Similar events have been repeated at many FINCA offices.

DUSHANBE 00000117 002 OF 003

TRYING TO NEGOTIATE WITH OFFICIALS TO LOWER DEMANDS

¶5. (C) According to FINCA country director Paul Hamlin (protect), most Roghun discussions take the form of a negotiation. Officials initially demand a very high figure -- often 5,000 somoni per person -- but then quickly come down to 500 or 1,000 somoni. Though in some cases authorities issue direct ultimatums to pay or be shut down, in other cases the threat is implicit. Local governments have a good deal of leverage. FINCA offices rely on them for everything from notarial services to heat and water, and their staff must work with officials for their individual needs as well, including renewal of identification documents and tax collection. Hamlin said FINCA employees were very aware that a failure to contribute to Roghun could lead to countless difficulties in their daily lives. (Note: We have heard of several cases where citizens have not been allowed to renew their passports without making major Roghun stock purchases on the spot. End note.)

FINCA AGREES TO HELP FUND EMPLOYEE ROGHUN PURCHASES...

¶6. (C) After lengthy discussions with managers and lawyers in the United States, FINCA has enacted a policy under which it will defray up to half of its employees' Roghun purchases. FINCA headquarters in Dushanbe will advance funds to employees to purchase shares in the employees' names, and the share certificates will be kept in Dushanbe until the employee repays the (no-interest) loan. If an employee remains with FINCA for six months, nearly one-quarter of the loan is written off; if the employee remains for one year, nearly one-half the loan is written off. Once the remainder of the money is repaid, FINCA will return the share certificates. Hamlin said this program

will likely cost FINCA about \$25,000 -- \$18,000 for the share purchases, and another \$7,000 in taxes and social fees on the original amount, because this will be considered a bonus payment.

...AND TO PROVIDE LOANS TO CLIENTS FOR ROGHUN SHARES

17. (C) FINCA also has decided to quietly issue loans to clients for Roghun purchases. Initially, FINCA had a policy of only providing loans for business activities; they would refuse, for example, to provide a loan so a client could pay for a wedding or buy a car. FINCA saw, however, that its clients and others continued to take on debt for major expenditures such as weddings, taking out very unfavorable loans from other sources. As a socially conscious lender, FINCA altered its policy to allow loans for non-business activities, provided the applicant had a good credit history and a reasonable repayment potential. It is under this policy that they are allowing some loans to be issued for Roghun share purchases. Hamlin said, however, that these loans are being made only to trusted clients with good credit histories, and mention of Roghun is not made in any of the documents. He is worried about a rush of Roghun applicants, and is consequently keeping this practice as quiet as possible. Hamlin acknowledged that providing loans for Roghun was a questionable practice. FINCA managers and lawyers, however, decided that if Roghun payments were mandatory for many people, the lender had a responsibility to help.

DILEMMA: TO HELP EMPLOYEES OR NOT?

18. (C) The intense pressure being exerted by the government has put FINCA in a difficult position: if it helps its employees and clients purchase shares, it is abetting the government's heavy-handed tactics. If it declines to provide any assistance, however, it is not only throwing its staff to the wolves, but setting up tense relationships with authorities, risking its future operations. This dilemma is not unique to FINCA: countless businesses, universities, hospitals, and other organizations are wrestling with the same issues. As a rule, the government has been demanding share purchases in proportion to the number of employees in a given organization. Nor is FINCA's decision to assist its employees unique either. Many

DUSHANBE 00000117 003 OF 003

managers are helping employees shoulder the Roghun burden. The mother of one embassy local staff member, for instance, who works at a government agency, said her boss simply bought shares for all of his employees. (He runs a successful business and evidently had the funds to do it.) The mother of another embassy staff member, however, a doctor at a government hospital, received no assistance in paying the 5,000 somoni demanded of her -- and was in fact told by her boss she would be fired if she failed to pay. For its part, the government does not seem to care who pays, as long as it gets the money.

ROGHUN MAY SCARE AWAY INVESTMENT

19. (C) Hamlin noted the Roghun campaign seriously threatened Tajikistan's financial and investment climate. Unlike a tax -- even an unfair, ad hoc tax -- there are no obvious limits to the Roghun campaign. Individuals who are hit up for 500 somoni one day may be forced to give 500 more the following day. And the approach may not stop with Roghun. Hamlin said the campaign has been so successful he is worried the government may use it as the blueprint for future fundraising efforts. All of this makes

it extremely difficult for individuals and businesses alike to plan rationally for the future. That uncertainty, in turn, may give investors serious pause about entering or remaining in the Tajik market. Hamlin said he fears that even an organization like FINCA, which is focused more on social and developmental goals than the bottom line, may find its investors unwilling to brave the risks here. There is evidence the government is willing to be very flexible about the rule excluding foreign-owned firms. Hamlin said Deputy Prime Minister Murodali Alimardon told him last week that FINCA, as a "locally registered company" could of course buy shares.

#### FINCA SEEKS EMBASSY HELP

¶10. (C) FINCA-Tajikistan has asked for the Embassy's help in interceding with the government to attempt to halt the most blatant extortion attempts. The decision to approach the Embassy was made after consulting with FINCA managers and lawyers in the United States. FINCA is concerned about possible retaliation from government authorities for involving the Embassy, but believes the potential benefits may outweigh the risks. Hamlin emphasized he has no desire to escape Roghun contributions altogether, and he maintains that individual FINCA employees are entitled to purchase shares, and FINCA will help them do so. The Embassy is working to craft an appropriate diplomatic note to the Tajik government.

#### COMMENT: OMINOUS CONSEQUENCES OF ROGHUN CAMPAIGN

¶11. (C) FINCA's experience demonstrates the lengths the government will go to extract every possible somoni from every possible source in the name of Roghun. Having declared in a burst of nationalism that foreign entities will be forbidden from investing in the dam, the government has effectively invited that investment by pushing local employees so hard that FINCA feels it must bail them out. FINCA's decision may be questionable, but it is by no means unusual in Tajikistan's current, deeply repressive climate. The chief difference is that Hamlin believed he could tell us about it, whereas many keep quiet for fear of retribution. FINCA's loans for Roghun shares highlights a potentially more worrisome concern for the economy. Past experience shows that the government is willing to force banks to make bad loans. If they come to see this as another path to resources, one fears they will wring every last bit of liquidity from the sector, once again leaving their population with a pile of debt that cannot be paid back. End comment.  
GROSS